
**Technology, Energy &
Communications Committee**

HB 3190

Brief Description: Providing tax incentives to support the semiconductor cluster in the state.

Sponsors: Representatives Wallace, Fromhold, Curtis, Orcutt, Moeller and Dunn.

Brief Summary of Bill

- Lowers the business and occupation tax rate to 0.275 percent for manufacturers of advanced semiconductor materials.
- Exempts from retail sales and use taxes the acquisition of gases and chemicals used in the manufacturing of advanced semiconductor materials.
- Makes the new incentives contingent on the investment of at least \$350 million in new facilities for advanced semiconductor material manufacturing in Washington.

Hearing Date: 2/2/06

Staff: Mark Matteson (786-7145).

Background:

Retail sales and use tax and business and occupation tax. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The use tax applies if retail sales tax has not been collected. Both the state and local governments impose sales and use taxes; the state rate is 6.5 percent and the average local rate is 2 percent statewide. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue. State revenues are deposited to the state general fund.

The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. A business may have more than one B&O tax rate, depending on the types of activities conducted. For example, the rate for most persons that conduct manufacturing or processing for hire activities is 0.484 percent.

Unless specifically exempt, all transactions or uses of property or services in the tax base are subject to retail sales and use taxes, and all business activity in the B&O tax base are subject to the B&O tax.

Semiconductor cluster incentives. In the 2003 session the Legislature enacted a package of incentives for manufacturers of semiconductor materials, including silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips, contingent upon a major investment in a microchip fabrication facility in the state. The package included:

- a preferential B&O tax rate of 0.275 percent;
- an exemption for gases and chemicals used in semiconductor manufacturing from retail sales and use tax;
- an exemption for the construction of new semiconductor manufacturing buildings from retail sales and use tax.
- a B&O tax job credit of \$3,000 for each employment position in semiconductor manufacturing production; and
- an exemption of machinery and equipment used in manufacturing semiconductor materials from property taxation.

Firms using the incentives are required to provide an annual report detailing employment, wages, employer provided health and retirement benefits at the manufacturing site. The report may be disclosed to the public upon request. In addition, the fiscal committees of the Legislature are required to evaluate the effectiveness of the incentive program five and then eleven years after the incentives become effective.

Availability of the semiconductor incentives is contingent upon a determination by the Department of Revenue that a contract has been signed for an investment of at least \$1 billion in a semiconductor microchip manufacturing facility. After becoming effective, the incentives expire twelve years later. As of January 2006, no determination had yet been made.

Recent semiconductor market activity in Washington. In December 2004, the parent company of Shin-Etsu Handotai (SEH) announced plans for a new manufacturing facility for 300 millimeter (mm) wafers in Vancouver, Washington. According to the company's web site, SEH was the largest producer of silicon wafers at the end of 2004 and seeks to increase its manufacturing capacity for the 300mm wafers from 300,000 per month world wide to 500,000 per month world wide by the end of 2006.

SEH maintains a semiconductor materials manufacturing facility in Vancouver, first opened in 1980, that produces single-crystal silicon ingots, polished and epitaxial wafers, and provides technical support for its customers.

Summary of Bill:

A new package of tax incentives is provided to certain semiconductor material manufacturers, contingent upon a large investment in new or expanded semiconductor manufacturing facilities in the state.

Persons that manufacture or process for hire advanced semiconductor materials are subject to tax under the B&O tax at a rate of 0.275 percent. Advanced semiconductor materials include silicon crystals, and, if at least 300mm in diameter, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers. Persons that manufacture advanced semiconductor materials are also exempt from retail sales and use taxes on the acquisition of gases and chemicals used in the production of advanced semiconductor materials.

Persons that utilize the incentives must submit an annual report by April 30 of each year to the Department of Revenue. The legislative fiscal committees are required to evaluate the effectiveness of the incentives. The report and evaluation content and administrative requirements are similar to those under the 2003 legislation pertaining to semiconductor materials manufacturing incentives, but include a few modifications. An extension in submitting the report is allowed if good cause is shown. The report must also be submitted electronically, unless the taxpayer demonstrates to the Department that it is unable to for good cause.

The incentive package is contingent upon the investment by an advanced semiconductor materials fabrication concern of at least \$350 million in the state in new buildings, the expansion or renovation of existing buildings, tenant improvements to buildings, and machinery and equipment in the buildings, for the purpose of manufacturing advanced semiconductor materials. The incentives become effective the month after the Department determines that the \$350 million investment has been made by the time that commercial production began.

Appropriation: None.

Fiscal Note: Requested on January 27, 2006.

Effective Date: All provisions of the bill become effective on the first day of the month following a determination by the Department of Revenue that, based on actual expenditures prior to commercial production, an investment of at least \$350 million in an advanced semiconductor materials manufacturing facility has taken place at the time commercial production began.